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Foreign Economic Trends and Their Implications for the United States

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SWITZERLAND

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KEY ECONOMIC INDICATORS - SWITZERLAND
(in millions of Swiss francs unless noted)

	1987	1988	1989
DOMESTIC ECONOMY			
Population (millions)	6.62	6.67	7.14
Population growth (percent)	0.7	0.8	0.7
GDP at current prices	254,685.0	268,755.0	286,565.0
Per Capita GNP (SF current prices)	40,201.0	42,402.0	43,700.0
Real GDP percent change	2.0	3.0	3.1
Consumer price index percent change	1.4	1.9	3.2
PRODUCTION AND EMPLOYMENT			
Industrial production percent change	1.0	7.0	2.0
Industry and services labor force (1,000)	3,136.0	3,176.0	3,215.0
-- Of which foreign	785.0	820.0	856.0
Unemployment (average percent for year)	0.8	0.7	0.6
BALANCE OF PAYMENTS (Payments Basis) AND FOREIGN EXCHANGE			
Exports of goods (fob)	69,592.0	76,454.0	86,816.0
Imports of goods (cif)	78,125.0	85,416.0	98,812.0
Trade Balance	-8,533.0	-8,962.0	-11,996.0
Current Account Balance	11,263.0	12,296.0	9,700.0
Foreign Exchange Reserves (yr end)	37,440.0	35,947.0	32,500.0
Average Exchange Rate (SF/Dollar)	1.49	1.46	1.64
FOREIGN INVESTMENT IN SWITZERLAND			
U.S. (cumulative in millions)	$20,000.0	N/A	N/A
MONETARY AND FISCAL			
Central bank money (% change)*	4.6	-10.9	-1.9
Federal Budget:			
Expenditures	23,861.0	26,633.0	27,400.0
Receipts	24,902.0	27,881.0	28,300.0
Surplus	1,041.0	1,248.0	900.0
U.S.-SWISS TRADE (Customs Basis - Swiss Sources)			
Swiss Imports from U.S.	3,994.0	4,560.7	6,080.0
Swiss Exports to U.S.	5,918.0	6,294.4	7,439.9
U.S. percent of All Swiss Imports	5.3	5.5	6.4
U.S. percent of All Swiss Exports	8.8	8.5	8.8

Main Industrial Imports from the U.S. in 1989 (SF Million): Diamonds, other precious stones and jewelry (920); EDP and office equipment and parts (678); electrotechnical machinery (548); aircraft and aircraft parts (546); motor vehicles and parts (447); instruments and apparatus for optical, medical and industrial applications (391); organic chemicals (377); industrial machinery (355); plastic materials (140).

Principal Swiss Exports to the U.S. in 1989 (SF Million): Industrial machinery, including machine tools, textile machinery, printing and paper machinery (1,567); organic chemicals, pharmaceuticals, dyestuffs (1,203); watches (782); jewelry (742); electrotechnical machinery (543); instruments and apparatus for optical, medical and industrial applications (453); hand tools (137).

*Currency in circulation plus banks' sight deposits with the central bank. Swiss National Bank monetary growth target for 1989.

Sources: Die Volkswirtschaft; Wirtschaftsspiegel; Monatsbericht Schweizerische Nationalbank (current account balance); Jahresstatistik Aussenhandel der Schweiz; Survey of Current Business.

SUMMARY

The Swiss economy remained strong in 1989, but exhibited some signs of strain. Gross domestic product (GDP) and export growth were better than expected at 3.1 and 5.4 percent, respectively. However, by year end inflation was climbing at an annual rate of 5 percent (up from 1.9 percent at the end of 1988), industrial capacity utilization was at an all-time high, and interest rates had increased to levels not seen since the early eighties. These factors are expected to reduce GDP growth in 1990 to 2.5 percent or less.

Except for agriculture, the outlook for U.S. exports to Switzerland is generally very good. Switzerland has the highest per capita income in the developed world. Its labor force is very highly paid, and the country has only a 0.6 percent unemployment rate. Despite higher prices and interest rates, Swiss consumers have a great deal of discretionary income. Swiss firms continue to invest in laborsaving equipment.

U.S. firms have taken advantage of this situation in recent years to increase their exports of a wide range of goods to Switzerland. In 1989 the bilateral balance of trade showed a surplus for the United States for the first time since the early eighties. Swiss imports from the United States in 1989 increased by 16.8 percent over 1988. The United States is now Switzerland's fourth largest foreign supplier, after neighboring Germany, France and Italy. 1990 should also be another good year for U.S. exports.

In sum, 1989 was a banner year for U.S. exports. Despite some economic strains, the outlook for both Switzerland and U.S. exports remains very favorable.

ECONOMIC PERFORMANCE AND OUTLOOK

In 1989, economic growth exceeded initial expectations with real GDP growth recorded at 3.1 percent. Exports of goods and services was a lead growth sector at 5.4 percent. Underlying this was strong growth abroad and the competitiveness effects of a sizeable depreciation of the Swiss franc, especially during the first half of the year. Reflecting robust domestic demand, imports rose by almost as much as exports. Fixed investment, while down some from the very strong showing of previous years, grew by 5.2 percent. The construction component grew by just over 6 percent. Personal consumption expenditures grew by under

2 percent, less than in 1988. Rapidly rising prices in the second half of the year resulted in a substantial cut in the rate of growth of real wages, which impacted on consumption demand.

The growth rate of industrial production was below the 7 percent of the previous year. However, this was mainly the result of constraints on the supply side. The industrial capacity utilization reached all-time high levels, near 90 percent. Employment grew by only 1.2 percent, but this was mainly the result of labor shortages, especially in the skilled category. For the first time since the early eighties, the number of unemployed was lower than the number of unfilled vacancies. The unemployment rate remained in the 0.5 to 0.6 percent range. The average annual rate of consumer price inflation was 3.2 percent, up from the less than 2 percent of 1988. At the end of the year, inflation was running at 5 percent. Strong demand, a weaker franc, higher petroleum prices, and mortgage interest rate increases, which pushed up rents, were all factors in the rise of the Consumer Price Index (CPI).

GDP growth is expected to be lower in 1990 than it was in 1989, probably 2.5 percent or less. A major factor in the slowdown would be lower growth in fixed investment, the consequence of tighter credit conditions, which will especially impact on construction. Export growth may also be off some. Various estimates of the average rise in the CPI range from 4 to over 5 percent. However, by year's end, inflation should be running at considerably below that level. While the unemployment rate may increase slightly, this will do little to ease the shortage of skilled labor.

FISCAL AND MONETARY POLICIES

Fiscal Policy. In 1989 the federal budget recorded a SF (Swiss franc) 900 million surplus (cash basis). Expenditures were recorded at SF 27.4 billion and receipts at SF 28.3 billion. This was the fourth consecutive annual surplus. The 1990 budget document projects another surplus, with expenditures at SF 29.6 billion and receipts at SF 30.3 billion. During the year, the stock of federal debt declined again, and at year's end stood at SF 25.1 billion. In 1988, the cantons (states) ran a small surplus. At the end of 1988 (latest available), total outstanding public debt amounted to only 31.0 percent of GDP and was divided about equally amongst the three levels of government.

The Government of Switzerland (GOS) does not actively employ fiscal policy as a countercyclical tool. About 35 percent of total public expenditures are accounted for by the federal government. The government's primary fiscal objective is to maintain a balanced budget consistent with meeting its medium-term objective of keeping expenditures at 10 percent of GDP. Currently, the executive and legislative branches are in various stages of considering proposals which would introduce major changes in the system of taxation. Discussion of possible revisions of the stamp tax on the issuance and trading of securities has been especially lively.

Monetary Policy. The Swiss National Bank (SNB) targets the monetary base (currency plus banks' sight deposits with the National Bank). A change in technical factors led to a sharp drop in bank liquidity demand in 1988, and in response the SNB implemented a policy which resulted in a contraction of the monetary base. However, in retrospect, the SNB admits that its monetary stance in the first half of the year was more expansive than intended. While setting an indicative target of 2 percent growth for 1989, the monetary base contracted by 1.9 percent. The SNB attributed about half of the lower-than-expected growth to a continued drop in bank liquidity demand and half to the need to implement a tighter-than-anticipated monetary policy. In May 1989, the SNB introduced a floating Lombard rate which is set daily to reflect money market rates. The progressive tightening of monetary policy has led to increases in interest rates to levels not seen since the early 1980s. Mortgage rates rose from 5 percent at the beginning of 1989 to, in some cases, 7 percent by year's end. These rises allowed landlords to increase rents which had a direct impact on the CPI.

The Swiss franc depreciated substantially during 1989, especially in the first half of the year. At its low point in May, the trade-weighted monthly index of the SF's value was down by 7 percent from December 1988. The currency subsequently recovered some, which according to the SNB was in good part attributable to the Lombard rate move. By October the monthly index was off by 3.5 percent from the previous December. Toward year's end, the SF, while experiencing a further strengthening against the dollar, was recording its lowest level in four years against the German mark.

BALANCE OF PAYMENTS

In 1989, Switzerland recorded a SF 9.7 billion current account surplus, the ninth consecutive annual surplus. However, this was down by over SF 2.5 billion from 1988, a result more than explained by a deterioration in the trade deficit. In 1989, the trade deficit (payments basis) was recorded at SF 12.0 billion. The unilateral transfers deficit was recorded as SF 2.7 billion. However, the services balance recorded a SF 10.7 billion surplus and the factor earnings surplus was recorded at SF 13.7 billion. Within the services balance, strong earnings growth was recorded in tourism and banking services. The factor earning's surplus was attributable to earnings on capital, which were recorded at SF 35.5 billion. This figure reflects Switzerland's large and growing net international creditor position. However, the factor earning's surplus was down marginally from 1988 as net payments to labor rose by over SF 1 billion to a level of SF 6.1 billion. These sizeable outflows are a reflection of the large number of foreign workers in Switzerland.

AGRICULTURAL ECONOMY AND POLICY

Aside from dryness in western regions which reduced second cuttings of hay and caused germination failures of some late-summer seeded crops, Switzerland experienced another good production year in 1989. Bread grain yields, for example, increased 6.2 percent to an all-time high of 6.4 metric tons per hectare; feed grain yields increased 8.5 percent also to a record high of 7.05 tons per hectare. With domestic prices protected by import restrictions, the value of Swiss production of animal products (which, including dairy products, accounts for two-thirds of Swiss farm income) increased 1.8 percent; the value of crop production increased 13.1 percent.

Notwithstanding these good results, the Swiss Farmers Union (SFU), the umbrella organization for most Swiss farm groups, asked the GOS for significant price increases and other concessions (loans and direct payments) for 1990. The SFU claimed that farmers' incomes were SF 11 per day below the parity level guaranteed by law (SF 63 below for mountain farmers) due to a rising inflation rate and high interest rates rarely seen in Switzerland. The GOS responded with an increase in the all-important farm price of milk of SF 0.05 per kilo (the SFU had demanded SF 0.06), while also increasing target prices for some livestock. However, farmers were shocked by a

new levy to be imposed on wheat producers to make them bear the entire cost of converting surplus production (above 450,000 tons) to feed use; the result could be reduced income for wheat growers in 1990 if the wheat crop is again about 600,000 tons. The acreage premium for corn was reduced by 28 percent in order to constrain rising feed grain production and bring corn more in line with other feed grains. Finally, a change in the pricing of dairy products was at last made to place less weight on fat content (until now over 80 percent of price determination); as one result, the retail price of skim milk increased over 50 percent in February 1990.

Some of the changes in the GOS Farm Package for 1990 are attributable to increasing domestic discontent over Swiss agricultural policy. In June the Swiss electorate narrowly rejected an initiative that would have shifted policy in favor of small farmers and the environment. Immediately thereafter, Swiss independent and green political parties announced new initiatives with the same general orientation as the rejected one. The SFU, alarmed at the prospect of losing its great influence over agricultural policy, announced its own initiative for a "family-type, competitive agriculture, respectful of the environment." Whether any of these initiatives come to a popular vote will depend importantly on future measures taken by the GOS to meet popular concerns, and on the impact on Switzerland of agricultural negotiations in the GATT and with European Community (EC) and European Free Trade Area (EFTA) countries on a European Economic Space (see also paragraph 2 under Implications for the United States on page 8).

Switzerland continues to align its technical regulations with those of the EC. For example, on January 1, 1990, it adopted EC meat inspection requirements with the intention of joining with other EFTA member countries in establishing a joint (EFTA) inspection authority to control third country processing plants and export certification systems.

AGRICULTURAL TRADE

Due to a 12.6 percent increase in the average value of the dollar against the Swiss franc, the value of Swiss agricultural imports decreased almost 2 percent in 1989 to a level of $5.5 billion. Agricultural imports from the United States fell 1.8 percent in dollars (to $244 million), but increased 9.8 percent in Swiss francs. The U.S. share of total agricultural imports improved slightly to 4.4 percent, but remains near the 4 percent low point since World War II.

The major agricultural imports from the United States in 1989 were cotton ($44.4 million), raw tobacco ($32.1 million), and almonds ($21 million).

IMPLICATIONS FOR THE UNITED STATES

Switzerland's robust economic growth in 1989 is expected to continue well into the nineties. The foreign trade sector has benefited from this excellent performance, with both exports and imports up sharply in 1989. U.S. suppliers have taken advantage of this situation to increase their share of the market as imports from the United States outpaced the average. According to U.S. Department of Commerce statistics, imports from the United States reached $4.9 billion in 1989, an increase of 16.8 percent over 1988. In fact, Commerce Department figures show a U.S. surplus in the bilateral trade balance for the first time since the early eighties. (Swiss statistics, which omit defense sales and purchases and other items, do not show the same degree of change.) The United States has become Switzerland's fourth largest foreign supplier after the bordering countries of Germany, France and Italy. Most importantly, these import gains are reflected over a wide range of products, from consumer goods to intermediates and capital equipment.

It is most unlikely that the fluctuations in the exchange value of the dollar will halt this trend. Switzerland's prosperity depends on the country's ability to compete effectively in international markets. Exports of goods and services account for 43 percent of Swiss GDP. Moreover, the Swiss have the industrial world's highest per capita income and rank among the top three in labor costs. The result is a continuing need to reduce production costs through the introduction of modern technology such as computer integrated manufacturing. The proposed Single Internal Market of the EC, scheduled to be in effect by the end of 1992, acts as an additional spur to the Swiss to maintain their competitive edge. In 1989, the EC accounted for 71 percent of Swiss imports and 56 percent of Swiss exports. Switzerland, for various reasons, has no present plans to join the EC. Instead, the country has opted for a policy of external adaptation, which means the Swiss will attempt to adopt where possible EC standards and other EC trade law in order to ensure a ready access to EC markets. Switzerland will participate, however, in the EFTA/EC negotiations to create a European Economic Space (EES), i.e. the free flow of goods, services, capital and persons among EC and EFTA countries.

U.S. suppliers are well placed to take advantage of Swiss needs. However, U.S. firms must recognize that they must demonstrate a commitment to the Swiss market. This means establishing a close relationship with an aggressive local distributor and earning a reputation for reliability and quality -- two factors the Swiss hold in high esteem.

U.S. and Foreign Commercial Service (US&FCS) in Bern conducts a number of events to promote trade, tourism, and investment. Upcoming events include:

10/24-26/90	Montreux	Travel Trade Workshop (Tourism)
11/6-9/90	Zurich	IFAS (Medical Equipment Exhibition)
11/13/90	Geneva	Invest in USA Conference
1/22-23/91	Zurich	Visit USA Seminar
1/24/91	Geneva	Visit USA Seminar
6/3-5/91	Zurich	Invest in USA Conference
6/20-21/91	Zurich	Matchmaker--with Vienna (Process controls & analy. instruments)
9/91	Zurich	Meet America Business Meeting
10/8-15/91	Geneva	Telcom'91 Forum & Exhibition
10/23-25/91	Montreux	Travel Trade Workshop
10/25-30/91	Zurich	AUTO TECHNICA (Auto parts & accessories)

FOREIGN INVESTMENT

Swiss regulations regarding foreign investment generally accord national treatment to foreign firms. Restrictions principally concern the purchase of real estate by foreign individuals and limits on the number of foreign personnel. Neither of these restrictions seriously affects business operations. In addition to direct investment, many Swiss firms are open to licensing and joint venture opportunities.

As of year-end 1987, U.S. direct investment in Switzerland had an estimated book value of $20 billion. This investment comprises 627 companies, employing 52,889 workers. At the same time, Switzerland ranks fifth in importance as a foreign investor in the United States with $14.7 billion, comprising 750 firms, employing 181,729 persons.

Many Swiss firms find themselves in a favorable cash flow position, in part thanks to the high value of the Swiss franc. They are using their relatively new found muscle to seek investment opportunities abroad. ASEA Brown Boveri's acquisition of Combustion Engineering and Hoffmann-LaRoche's acquisition of Genentech are examples of this trend. In addition, many smaller Swiss firms seek to reduce exchange rate risks and protect U.S. markets previously supplied by exports through assembly or manufacturing operations in the United States. As a result, Switzerland has become a target for state and municipal organizations eager to attract investment to their area. Five gubernatorial visits for such purposes took place in 1989.

TRAVEL USA

The United States remains a favorite overseas destination for Swiss travelers. In 1989, an estimated 285,000 Swiss (nearly 5 percent of the population) visited the United States. This figure matched that of the record set in the previous year. A study performed by a Swiss business school estimates that the average Swiss tourist to the United States stays two weeks and spends $2,500, exclusive of travel. This suggests that the United States earned approximately $700 million from Swiss tourism in 1989. Travel to the United States will remain at a high level, but gains will be hard to come by. For this reason, the U.S. tourist industry must actively promote its interests in Switzerland.

The affluent Swiss like to travel individually and often seek offbeat destinations. This desire creates opportunities for areas in the United States which may be lesser known to the Swiss. Tour operators, airlines, hotels and other organizations serving the tourist industry may participate in annual travel promotion events taking place in Switzerland. The US&FCS in Bern organizes two of these events--the U.S. Pavilion at the Travel Trade Workshop in Montreux and the Visit USA Seminars in Montreux and Zurich.

LABOR DEVELOPMENTS

Switzerland's skilled and dedicated labor force is the country's only raw material and the backbone of its continued prosperity. According to the Federal Office for Statistics, the industrial and services sector together employed close to

3.3 million people in 1989, of which 58 percent were active in services and 42 percent in industry. A total of 40,000 new job positions were created, mostly in the services sector. Of these, 24,000 were filled by women, who now account for 38 percent of the work force. The overall unemployment rate stood at 0.6 percent. In absolute terms, the average number of unemployed was 15,000. Job vacancies averaged 17,000. However, in practice many additional workplaces were said to be vacant but went unregistered with labor exchanges.

The high level of economic activity which continued throughout 1989 aggravated the already tight situation on the labor market. Shortages of skilled blue and white collar workers affected nearly all branches, but were particularly severe in the services sector and in the engineering and chemical industries. The hotel and catering industry, for example, reported 12,000 unfilled vacancies. Equally, there were acute shortages of mid-level managers, professional and technical staff, including data processors, information systems designers, lawyers and accountants. Such people were often brought in at unprecedented cost, distorting salary scales and recruitment practices of industrial and public-sector employers. Incidents of companies poaching staff were reported to be on the increase. Thus, one of Switzerland's larger retail chains was found last year to have addressed personalized letters to employees of its principal competitors, offering better working conditions, higher salaries, improved social benefits, and prospects for earlier promotion. Against all this looms the threat of a drastic decline in the number of school-leavers entering industry and services as apprentices. The falling birth rate in the late 1970s means that by 1995 the number of people between 16 and 19 years old will have dropped by 25 percent. Already in 1989, only between 30 and 80 percent of vacancies for apprentices could be filled, depending on the attraction and glamor of the type of occupation offered. Technical and engineering professions as well as banking, insurance, and certain branches of health care were identified as the most popular, while catering and construction were the least favored.

To make up deficiencies in the domestic labor pool and to keep the economy moving, Switzerland was more than ever dependent on the employment of a large number of foreign workers. In 1989, the country counted an average number of 856,000 gainfully

employed aliens (including seasonal workers and border crossers), which was 5 percent above the 1988 figure. Foreign workers accounted for 27 percent of the total labor force. However, in sectors like the building, textile, and hotel and catering industries their share was perceptibly higher. About 60 percent of the expanded demand for labor in 1989 was covered through the employment of foreign workers.

Although many foreign workers still fill such lowly occupations as handymen and cleaners, a great number are now employed in highly desirable and rewarding positions in industry and services. For example, 35 percent of academic staff at Ciba-Geigy, Switzerland's largest chemicals producer, are non-Swiss. For computer departments in general, the share of foreigners is around 50 percent. Even such sacrosanct domains as the country's postal and railroad services, up to now the exclusive preserve of Swiss nationals, are being invaded by foreigners. The PTT and the Federal Railroads simply find it no longer possible to fill essential posts without turning to foreign labor.

Nominal wages increased on average by 4.0 percent. The rise was only 0.8 percent above the 1989 rate of inflation. However, if one considers that Swiss workers are already among the most highly paid in the world, even an increase of just below 1 percent makes a difference to the pay packet. Since inflation jumped to 5.0 percent at year-end, and continues to rise, negotiations between the social partners for adjustments and more substantial wage increases in real terms will certainly be on the books during the current year. While in 1989 wages and salaries of women rose somewhat faster than those of their male colleagues, women on average still earn less than 70 percent of men's pay. Despite the fact that an equal pay law was introduced in 1981, the practice, which harks back to the notion that the male is the breadwinner while the female works for pin money, is difficult to eradicate and continues to be an important issue.

Four collective bargaining conflicts were reported in 1989. However, in only two instances did work stoppage amount to more than one day, while the other two were warning strikes lasting a few hours. The total loss in man-days of labor amounted to 265. Two companies with a total of 22 workers were involved.

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